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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC 01380-86  
12 March 1986

MEMORANDUM FOR: Acting Director of Central Intelligence

FROM: Graham E. Fuller  
Vice Chairman, National Intelligence Council

SUBJECT: The Iran-Iraq War

1. The prospect of the Iran-Iraq war spilling over into the Gulf countries has long been a concern. A major new factor in the war has now emerged--the price of oil--which renders this spillover prospect much more likely.

2. Iran's success at Al Faw has already changed its view of the war.

- This success was not necessarily anticipated by Iran and has buoyed Iranian spirits while depressing the Iraqis and Gulf Arabs.
- Iran had been pursuing a rather conciliatory policy toward the Gulf Arabs for nearly a year in the hopes of changing their minds on support for Iraq. This policy of conciliation has not worked, and hardliners can point to that fact.
- Success at Al Faw will encourage the hardliners to believe that victory is still a possibility for Iran.

3. But Iran must recognize that their efforts to intimidate the Gulf states have also not succeeded. Intimidation has only served to strengthen their resolve, push them toward greater unity and to the US for support. In this sense the hardline policy has also not succeeded.

- The critical point of Iranian policy was whether the Gulf states could be discouraged from providing economic support to Iraq.
- The new oil issue has now reinforced the earlier intimidation effort, sparked by Saudi Arabia's determined policy to maintain high oil production--and the rest of the world be damned.

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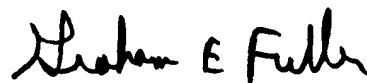
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4. Iraq's vulnerability is military: it involves the psychological decay and crumbling of an Iraqi army vastly superior in weaponry. It could happen quickly even without major strategic defeat if a loss proves psychologically numbing. It could spark dramatic political change in Baghdad.

- Iran's vulnerability is primarily economic. Iran could be brought to its knees through sustained Iraqi efforts to destroy Iran's economic infrastructure. Iraq has the capability. It has only lacked the political decision or will to do so so far.
- Iran is, therefore, highly vulnerable to long term depression of oil prices and closure of its production facilities. This is even more critical to Tehran's war effort than continued economic support to Iraq from the Gulf states.
- Iran, therefore, has much greater reason to attempt to bludgeon the Gulf producers--especially Saudi Arabia--away from its policy that is driving down oil prices with no end in sight. Kuwait is the secondary oil villain.
- Saudi Arabia has challenged not only Iran but even Iraq in that Iraq too suffers from low prices but at least is helped out by Gulf state handouts. Most other oil producing countries in the world are also distraught over Saudi policy and would not be adverse to any action which Iran took to change Saudi policies. Libya is one of those states--like Iran--that is willing to do something about it.

5. The chances of more trouble down the Gulf--either by way of terrorism, commando sabotage raids, or direct military conflict--are much higher than before. For Iran the stakes have grown immeasurably due to the plunging oil market and Riyadh's role in it.

  
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